

Message Text

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TO USMISSION GENEVA

UNCLAS STATE 263961

FOR AMBASSADOR SHERER

FOLLOWING REPEAT STATE 263961 SENT ACTION PRAGUE
DECEMBER 2ND:

QUOTE UNCLAS STATE 263961

E.O. 11652, N/A

TAGS: PFOR, EFIN, CZ, US

SUBJECT: CZECH CLAIMS SETTLEMENT

FOLLOWING EDITORIAL APPEARED IN DECEMBER 2 EDITION OF
JOURNAL OF COMMERCE:

QUOTE: IN REVIEWING PROSPECTS FOR THE ADMINISTRATION'S
TRADE BILL QUITE SOME WEEKS AGO, WE MADE THE FOLLOWING
POINTS: (1) THE HOUSE HAD PASSED AN ACCEPTABLE MEASURE LAST
YEAR; (2) THE SENATE FINANCE COMMITTEE WAS MAKING FAIR
PROGRESS ON A COMPANION MEASURE, AND (3) UNLESS A MASSIVE
CAMPAIGN WERE LAUNCHED TO AMEND IT ON THE SENATE FLOOR,
ENACTMENT BEFORE ADJOURNMENT OF THE 93RD CONGRESS WAS
POSSIBLE.

IF WE WERE NO MORE POSITIVE THAN THAT WE HAD A REASON.
WHILE MOST OF THE TICKLISH ISSUES THAT HAD BOGGED THE BILL
DOWN IN THE SENATE COMMITTEE (SOVIET EMIGRATION POLICY
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BEING HIGH ON THE LIST) HAD BEEN COMPROMISED, WE KNEW FROM EXPERIENCE THAT TRADE LIBERALIZATION BILLS HAVE A HISTORY OF ENCOUNTERING LAST-MINUTE SNAGS STREWN IN THEIR PATHS EITHER BY SPECIAL INTEREST GROUPS OR BY FORCES THAT OPPOSE TRADE LIBERALIZATION ON GENERAL PRINCIPLES.

THE PRESENT TRADE BILL APPEARS TO BE ENDANGERED BY A NEW SUCH SNAG BEFORE EVEN EMERGING FROM COMMITTEE. THIS IS IN

THE FORM OF A RIDER THAT NOW APPLIES EXCLUSIVELY TO CZECHOSLOVAKIA, BUT WHICH CONTAINS IMPLICATIONS THAT EXTEND MUCH BEYOND THAT.

BACK IN JULY, THE U.S. AND CZECH GOVERNMENTS INITIALED AN AGREEMENT SETTTLING LONG-STANDING MUTUAL CLAIMS. INVOLVED WERE \$72.5 MILLION IN U.S. PRIVATE CLAIMS RELATING TO PROPERTY SEIZED BY THE CZECH GOVERNMENT AFTER 1948, PLUS \$7 MILLION IN U.S. GOVERNMENT CLAIMS INVOLVING SURPLUS PROPERTY SALES. ALSO INVOLVED WAS A CZECH CLAIM FOR 18.4 METRIC TONS OF GOLD SEIZED DURING THE SECOND WORLD WAR AND HELD SINCE IN NEW YORK BANKS IN ACCORDANCE WITH A RULING BY A BRITISH-FRENCH-AMERICAN GOLD COMMISSION.

THE AGREEMENT PROVIDED THAT CZECHOSLOVAKIA PAY 42 PER CENT (ROUGHLY \$30.4 MILLION) ON THE PRIVATE AMERICAN CLAIMS AND THE FULL \$7 MILLION ON THE U.S. GOVERNMENT CLAIM. IN RETURN, THE CZECHS WOULD GET THEIR GOLD BACK.

MOST-FAVORED-NATION TREATMENT FOR PRAGUE WAS NOT A FACTOR IN THIS AGREEMENT. THAT WAS SOMETHING THE CZECHS DEFINITELY WANTED. BUT IT WAS UNDERSTOOD THAT SUCH TREATMENT MIGHT BE FORTHCOMING IF CONGRESS PASSED THE PENDING TRADE BILL, AND IF THE CZECHS WERE WILLING TO NEGOTIATE SUBSIDIARY AGREEMENTS IN OTHER AREAS, SUCH AS MACHINERY FOR SETTTLING COMMERCIAL DISPUTES, DUMPING AND SO FORTH.

IN OTHER WORDS, THE STAGE FOR A NORMALIZATION OF THIS COUNTRY'S TRADE WITH CZECHOSLOVAKIA HAD BEEN PRETTY WELL SET WHEN ALONG CAME AN AMENDMENT SPONSORED BY SEN. MIKE GRAVEL, AN ALASKA DEMOCRAT. HE INSISTED THAT PRAGUE BE UNCLASSIFIED

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REQUIRED TO PAY ALL U.S. CLAIMS IN FULL BEFORE BEING GIVEN MFN TREATMENT. THE COMMITTEE'S CHAIRMAN, RUSSELL B. LONG, OF LOUISIANA, ALSO BACKED THE AMENDMENT, THOUGH THERE ARE REPORTS THAT HE MAY NOW BE ENTERTAINING SECOND THOUGHTS.

WHAT IS THE RATIONALE FOR THIS? IT GOES SOMETHING AS FOLLOWS: WHY SHOULD THE UNITED STATES ACCEPT PAYMENT FROM

THE CZECHS AMOUNTING ONLY TO 42 PER CENT OF THE PRINCIPAL WHILE HANDING BACK ALL OF THEIR GOLD?

ONE ANSWER IS THAT 42 PER CENT OF THE PRINCIPAL IS MORE THAN WASHINGTON GOT FROM POLAND OR ROMANIA IN THE EARLY 1960S AND MORE THAN WHAT THE CZECHS HAVE GIVEN ANY OTHER CLAIMANT NATION. ANOTHER IS THAT IF THE FINANCE COMMITTEE'S AMENDMENT SINKS THE CZECH AGREEMENT ALTOGETHER, THE

V S. PRIVATE CLAIMANTS STAND TO GET NOTHING WHATEVER. SINCE THE CZECHS REPORTEDLY REFUSE FLATLY TO REOPEN THE CLAIMS NEGOTIATIONS, IT SEEMS QUITE POSSIBLE THEY WON'T.

WHY DID THE COMMITTEE ACCEPT THE AMENDMENT AS PART OF THE TRADE BILL? IT WAS APPARENTLY SWAYED LARGELY BY THE CASE OF AN AMERICAN GLOVE MANUFACTURER WHO CLAIMED THAT THE CZECHS HAD SEIZED PROPERTIES OF HIS WORTH \$2 MILLION, WHO STOOD TO COLLECT \$650,000 UNDER THE ORIGINAL CLAIM, BUT WHO WOULD ONLY GET \$185,000 UNDER THE JULY SETTLEMENT.

HIS PLEA DID STIR THE COMMITTEE, AND PERHAPS WITH REASON. BUT IT HAS TURNED OUT THAT WHAT THE MANUFACTURER WOULD GET UNDER THE JULY AGREEMENT IS ACTUALLY LESS BY ONLY \$266,000 THAN HE WOULD HAVE GOTTEN UNDER AN ADJUDICATION OF 100 CENTS TO THE DOLLAR, AS HAROLD HORSTMAYER POINTED OUT IN A WARSAW DISPATCH TO THIS NEWSPAPER LAST FRIDAY.

WHAT IS THE NEXT STEP? IF THE SENATE APPROVES THE COMMITTEE AMENDMENT, OR IF THAT AMENDMENT IS NOT SUBSTANTIALLY MODIFIED, PROSPECTS FOR A U.S.-CZECH TRADE RUNNING INTO MANY MILLIONS GO OUT THE WINDOW, ALONG WITH THE CLAIMS OF OTHER U.S. FIRMS HURT BY THE POSTWAR CZECH EXPROPRIATION. IN ADDITION IT WILL ESTABLISH A PRECEDENT FOR ANYONE WITH A CLAIM AGAINST A FOREIGN GOVERNMENT WHO WOULD RATHER HAVE

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AN ENTIRE TRADE PACT TORPEDOED THAN FOREGO IT IN PART.

BUT THIS NATION'S TRADE WITH THE CZECHS MAY NOT BE THE ONLY ISSUE AT STAKE. AN AMENDMENT LIKE THIS COULD DETONATE A PROLONGED WRANGLE NOT UNLIKE THAT INVOLVING SOVIET POLICIES TOWARD EMIGRATION. IN VIEW OF THE VERY SHORT TIME REMAINING FOR WORKING OUT SUCH ISSUES, IT COULD ALSO TORPEDO ALL PROSPECTS THAT THE TRADE BILL ITSELF WILL BE ENACTED IN THE PRESENT SESSION OF CONGRESS. UNQUOTE.

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